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THE WHITE HOUSE
WASHINGTON

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May 1, 1985

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MEMORANDUM FOR JAMES A. BAKER III
GEORGE P. SHULTZ
JOHN R. BLOCK
MALCOLM BALDRIGE
WILLIAM E. BROCK
SAMUEL R. PIERCE, JR.
ELIZABETH H. DOLE
JOHN S. HERRINGTON
DAVID A. STOCKMAN
BERYL W. SPRINKEL
MICHAEL B. SMITH

SUBJECT: Economic Policy Council

We are now in the process of preparing the agenda for the work of the Economic Policy Council over the next six months. In establishing the Council the President directed that it was to advise him on all aspects of domestic and international economic policy.

I would appreciate your providing a list of those economic policy issues you foresee the Council needing to consider over the next six months. I would also appreciate your including a one paragraph description of the issue and any action forcing events that will influence when we will need to review it.

It would be most useful if your list of suggested issues could be submitted to my office by close of business on Friday, May 10, 1985.

Thank you very much.

Roger B. Porter
Roger B. Porter
Executive Secretary

cc: Donald T. Regan
Alfred H. Kingon

Suggestions for Economic Policy Council Agenda

1. Issue: Should the Administration modify current restrictions on Alaskan crude oil exports and, if so, to what extent?

There is general agreement within the Administration that at least a partial lifting of restrictions on Alaskan crude oil exports would be beneficial both from an economic and foreign policy perspective. Cook Inlet oil can be freed for exports quickly by administrative action when the time is deemed right.

2. Issue: Whether to announce a new position that we will not join the Common Fund.

Although we signed the Common Fund Agreement in 1980, until recently there has been an interagency consensus that a decision on ratification of the Agreement should be delayed. The lack of U.S. (or unlikely USSR) participation and financial commitment is the main impediment to the Fund's becoming operational.

Events forcing action: The Agreement is now approaching the number of required ratifications (currently 85 obtained of 90 required). Diplomatic pressure for the U.S. to participate will increase.

3. Issue: How to react to pressures for restricting imports of refined oil products, petrochemicals, and other goods with inexpensive energy as a major input in the production process.

The issue came to a head last year in the form of legislation (the "Gibbons Bill") that would have had the effect of negating the competitive advantage enjoyed by countries with low natural resource prices. The Administration managed to derail this measure temporarily by promising a thorough study of the issue.

Events forcing action: Now that this study is nearly finished, and Gibbons has reintroduced his bill, we can expect the problem to require the attention of the Economic Policy Council.

4. Issue: Developing strategies for dealing with the economic and financial difficulties besetting Sub-Saharan Africa.

Treasury and State have each been working during the past months toward a possible cabinet-level discussion of policy strategies for dealing with the difficult economic and financial predicament of Sub-Saharan Africa. Our objective

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would be to reach agreement on some principles that would guide our response to the increasing number of intractable country situations that are emerging.

Events forcing action: There is no specific time frame for such a meeting but our discussions may well evolve to a point requiring Cabinet consideration during this six month period.

5. Issue: Whether to join the Multilateral Investment Guarantee Agency (MIGA)

The World Bank is considering adding a new institution, the Multilateral Investment Guarantee Agency, to its group to promote private investment flows to developing countries by offering investors insurance coverage against political risk. Participation (with Congressional approval) would require a contribution to the MIGA's start-up capital in the \$25 million range.

Events forcing action: The Bank hopes to have its convention open for signature as early as the Autumn Bank/Fund meeting in Seoul. If the discussions are successful, the USG will have to decide whether to join.

6. Issue: Should the Administration participate in future replenishments of certain multilateral development banks (MDBs) and, if so, at what levels?

Negotiations have already begun for the next Asian Development Fund replenishment and the World Bank has proposed a new general capital increase (GCI) for the IBRD. We will have to decide on a reasonable range for the replenishment requests by the time of the next budget submission.

Events forcing action: The first meeting of the ADF replenishment talks took place in Bangkok on April 29. The next two rounds will be held in Rome on June 17-18 and in Tokyo on October 14. World Bank will hold board discussions on issues related to GCI this summer, the first on July 10.

7. Issue: How to get international consensus to launch a new round of multilateral trade negotiations as soon as possible, preferably early next year.

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At the Bonn Summit, the French opposed an early 1986 date. The French (and the EC) could be a major stumbling block. If the French continue to balk, we may consider going ahead with those willing to negotiate.

Events forcing action: The U.S. will press for a senior officials meeting at GATT in late July to begin preparations for a new round. At this meeting we will seek widest possible consensus of developed and developing countries; EC support is most desirable. Our position on agriculture needs careful planning and skilled presentation.

8. Issue: How to further the Presidentially-initiated sectoral negotiations with Japan.

In conjunction with the negotiations, we must work with Congress to prevent ill-considered action leading to protectionism in the U.S. and elsewhere, and retaliation by Japan and others.

Events forcing action: Secretary Shultz will meet with Japanese Foreign Minister Abe in July and again in September, officially to review status of economic relationship.

9. Issue: How to achieve a balance in our textile policy between domestic demands for protection and our bilateral/multilateral commitments.

In the context of renewal of the Multi-fiber Arrangement (MFA), we must develop a textiles policy which will effectively resist the intense domestic pressures for more protection. We should oppose legislation which would violate MFA understandings and bilateral commitments by rolling-back textile quotas from the major suppliers.

Events forcing action: Current MFA expires on July 31, 1986; multilateral meetings on renewal scheduled for July and October of this year. Protectionist legislation may move forward on the Hill.

10. Issue: How to manage U.S.-EC agricultural trade relations to achieve liberalization and to overcome EC reluctance to include agriculture in a GATT round.

The U.S. and EC have divergent aims: we are seeking basic changes in the GATT rules to reduce the CAP's effect on U.S. trade; the EC would like to maintain the status quo. A related issue is the 1985 Farm Bill. It will be important that

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proposed trade/domestic policy trade-offs receive close inter-agency review, and that the legislation not unduly restrict executive options in pursuing trade policy objectives.

Events forcing action: Next steps in the dispute with the EC on citrus; new round preparations; the mandate of the GATT Committee on Trade in Agriculture to elaborate approaches for liberalizing agriculture trade by November.

11. Issue: Review U.S. objectives and priorities in employing PL-480 food aid as a foreign assistance instrument.

Events forcing action: None, but food aid could play a larger role in U.S. efforts to foster economic growth in developing countries.

12. Issue: How to respond to the report of the G-10 Deputies on international monetary reform.

The French have pushed for a major conference in Paris on monetary reform and tried to link progress on trade negotiations to progress on monetary reform. The G-10 deputies will complete their work May 15-16 and we will need to consider positions for upcoming meetings.

Events forcing action: G-10 Finance Ministers Meeting, June 21, Tokyo, and IMF Interim Committee Meeting October in Seoul.

13. Issue: How to handle the sugar program.

USDA currently estimates that the next global quota will be set at 1.4 million tons (compared to 2.55 million tons this year). This reduction will have serious effects on our trade relations and the economic well-being of our traditional sugar suppliers, who are concentrated in Latin America.

Events forcing action: In September, the Sugar Working Group will have to announce import quotas for the next quota year.

14. Issue: How the USG should charge foreign and commercial users of the space shuttle to fully recover USG costs.

The President has directed that the price for reimbursable shuttle use in FY 1989-91 should fully recover USG costs. Depending on whether marginal or all fixed costs, such as orbiter depreciation, are recovered, the price will vary.

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Events forcing action: None, but a CCCT working group has completed a report on this issue in fulfillment of the CCCT responsibility for commercial activity in space as contained in the White House MOU dated January 24, 1985.

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